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**CLAIBORNE
INDUSTRIES LIMITED**

Annual Report 1976



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CLAIBORNE INDUSTRIES LIMITED
P. O. Box 400,
Rexdale, Ontario.

DEAR SHAREHOLDER:

Enclosed you will find the audited financial statements of the Company for the fiscal period ended September 30, 1976, reported upon by Thorne Riddell & Co., Chartered Accountants.

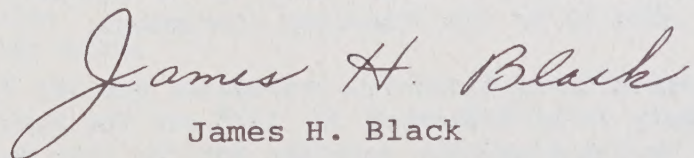
Despite uncertain economic conditions generally and more particularly in the construction industry, the Rocamora plumbing division of the Company maintained sales levels close to those in the previous fiscal year. Net income before taxes and extraordinary items was approximately \$230,000.

Extreme difficulties were encountered by the Company in completing and finalizing the audited financial statements for the fiscal period ended September 30, 1976, because the books and records of the Company and its subsidiaries were seized by the RCMP. Hence the delay in mailing the 1976 Annual Report to the Shareholders.

As you are aware, upon the application by a shareholder to the Supreme Court of Alberta, a special meeting of the Company has been ordered to be held on June 17, 1977. It was the intention of your Board of Directors to call and hold its regular Annual Meeting at the earliest possible time after the audited financial statements became available.

In fairness to the Shareholders of the Company, your Board of Directors has authorized the mailing of this Annual Report to the Shareholders of the Company, but has postponed the calling of the regular Annual Meeting pending litigation in Alberta challenging the Order calling the Special Meeting on June 17, 1977. As soon as this matter is clarified, the Board of Directors of the Company will meet and set a date for the Annual Meeting.

ON BEHALF OF THE BOARD OF DIRECTORS



James H. Black

DATED June 8, 1977.

President

AUDITORS' REPORT

To the Shareholders of
Claiborne Industries Limited

We have examined the consolidated balance sheet of Claiborne Industries Limited as at September 30, 1976 and the consolidated statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests and other procedures as we considered necessary in the circumstances, except as explained in the following paragraph.

The companies' accounts and records are in the possession of the Royal Canadian Mounted Police under a search warrant dated January 24, 1977. It was not practicable for us to complete our review of events subsequent to September 30, 1976 and, accordingly, while we have obtained management representations in this regard, we were unable to carry out further procedures required in order to satisfy ourselves as to the existence of material subsequent events other than those reported.

In our opinion, except for the effect of the adjustments and further disclosures, if any, which may have been required had we been able to complete a review of events subsequent to September 30, 1976, and subject to:

- (i) the determination of the ultimate loss, if any, on the account receivable described in note 2 to the financial statements;
- (ii) the ultimate realization of the amounts advanced to shareholders and to companies which are related to directors, officers or shareholders of the company as described in notes 3 and 11 to the financial statements, and;
- (iii) the effect, if any, of the investigation and charges described in note 10 to the financial statements,

these consolidated financial statements present fairly the financial position of the company as at September 30, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
May 6, 1977

Thorne Riddell & Co.
Chartered Accountants

CLAIBORNE INDUSTRIES LIMITED
(Incorporated under The Companies Act of Alberta)

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1976

	<u>1976</u>	<u>1975</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 5,101	\$ 161,094
Accounts receivable (note 2)	1,690,888	1,631,664
Accrued interest on advances (note 3)	171,527	27,507
Inventories, at the lower of cost and net realizable value	1,706,355	1,588,934
Prepaid expenses	<u>7,097</u>	<u>18,733</u>
	3,580,968	3,427,932
ADVANCES, to shareholders and to companies which are related to directors, officers or shareholders of the company, with no fixed terms of repayment (notes 3 and 11)	1,695,400	936,212
INVESTMENTS	1	413,529
FIXED ASSETS (note 4)	472,146	493,036
OTHER ASSETS (note 5)	<u>54,091</u>	<u> </u>
	<u>\$5,802,606</u>	<u>\$5,270,709</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (note 6)	\$1,490,204	\$1,210,000
Accounts payable and accrued liabilities	1,065,989	749,748
Due to broker		128,554
Income taxes payable	16,863	13,087
Deferred income taxes	67,000	
Current portion of long term debt	<u>14,527</u>	<u>352,382</u>
	2,654,583	2,453,771
LONG TERM DEBT (note 7)	<u>1,498,354</u>	<u>1,144,446</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 8)		
Authorized		
4,000,000 Class "A" non-voting, fully participating shares of no par value		
2,000,000 Common shares of no par value		
Issued		
1,255,421 Common shares	3,655,814	3,655,814
CONTRIBUTED SURPLUS	24,040	24,040
DEFICIT	<u>(2,030,185)</u>	<u>(2,007,362)</u>
	1,649,669	1,672,492
	<u>\$5,802,606</u>	<u>\$5,270,709</u>
Legal proceedings (note 10)		
Subsequent events (note 11)		

Approved by the Board

Director " J. H. Black "

Director " J. E. Whiteside "

CLAIBORNE INDUSTRIES LIMITED

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

YEAR ENDED SEPTEMBER 30, 1976

	<u>1976</u>	<u>1975</u>
Sales	\$7,447,637	\$8,870,500
Cost of sales	<u>5,713,750</u>	<u>6,699,742</u>
Gross profit	<u>1,733,887</u>	<u>2,170,758</u>
Expenses		
Selling, administrative and general	1,398,739	1,442,360
Interest on long term debt	153,560	125,855
Other interest	157,311	128,008
Depreciation	<u>35,161</u>	<u>38,706</u>
	<u>1,744,771</u>	<u>1,734,929</u>
	(10,884)	435,829
Other income		
Interest and dividends	<u>240,405</u>	<u>88,311</u>
Income before income taxes and extraordinary items	229,521	524,140
Income taxes	<u>122,269</u>	<u>308,342</u>
Income before extraordinary items	<u>107,252</u>	<u>215,798</u>
Extraordinary items		
Gain (loss) on sale of investments	1,521	(24,871)
Provision for loss on investment in Creative Patents & Products Limited	(212,000)	
Reduction of income taxes resulting from application of prior years' losses	78,156	306,100
Gain (loss) on retirement of debentures	(15,000)	10,000
Recovery of advances to Jamaican subsidiary, previously written off	<u>17,248</u>	<u>291,229</u>
	<u>(130,075)</u>	
NET INCOME (LOSS)	(22,823)	507,027
DEFICIT AT BEGINNING OF YEAR	<u>2,007,362</u>	<u>2,514,389</u>
DEFICIT AT END OF YEAR	<u>\$2,030,185</u>	<u>\$2,007,362</u>
EARNINGS (LOSS) PER SHARE		
Income before extraordinary items	<u>\$.09</u>	<u>\$.17</u>
Net income (loss)	<u>\$ (.02)</u>	<u>\$.40</u>

CLAIBORNE INDUSTRIES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED SEPTEMBER 30, 1976

	<u>1976</u>	<u>1975</u>
WORKING CAPITAL DERIVED FROM		
Operations	\$ 182,137	\$ 560,604
Issue of long term debt		
Mortgages	150,000	350,000
Debentures, net of amounts exchanged	188,750	
Other	10,412	11,002
Proceeds on the sale of investments, net	415,050	25,984
Recovery of advances to Jamaican subsidiary	17,248	
	<u>963,597</u>	<u>947,590</u>
WORKING CAPITAL APPLIED TO		
Reduction of long term debt	16,504	559,738
Advances, net	759,188	936,212
Investment in Creative Patents & Products		
Limited, net	212,000	
Purchase of fixed assets	13,681	17,681
Other assets	10,000	
	<u>1,011,373</u>	<u>1,513,631</u>
DECREASE IN WORKING CAPITAL	47,776	566,041
WORKING CAPITAL AT BEGINNING OF YEAR	<u>974,161</u>	<u>1,540,202</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 926,385</u>	<u>\$ 974,161</u>

CLAIBORNE INDUSTRIES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 1976

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned. During the year, the assets, obligations and operations of the company's operating subsidiary, Rocamora Bros. Canada Ltd., were wound up into the parent company and Rocamora Bros. Limited, Lloydair Limited and Lloydair (1969) Limited were amalgamated to form Rocamora Corporation Limited.

(b) Investment in Creative Patents & Products Limited (Creative)

A subsidiary purchased \$200,000 First Floating Charge Debentures and 475,000 escrowed shares (42.8% interest) of Creative for a total of \$255,000. That company, whose principal assets were patents and inventions, together with related product research and development, has ceased operations and accordingly, the investment net of recoveries, has been fully provided for in the statement of income and deficit.

(c) Fixed assets

Depreciation is provided on a straight-line basis using the following annual rates:

Building	-	5%
Equipment	-	10%
Automotive	-	25% the first year and 20% thereafter

(d) Debenture discount

Debenture discount is amortized to income on a straight-line basis over the terms of the applicable issue.

(e) Earnings per share

Earnings per share have been calculated on the basis of the weighted average number of shares outstanding during the year. The conversion of the Series B debentures of the company would be anti-dilutive.

2. ACCOUNTS RECEIVABLE

The company has placed a major customer in receivership and is proceeding to enforce its security against the company and against the personal guarantees provided by its shareholders. It is not possible to determine the portion of the account which may ultimately be collected. At September 30, 1976, the balance owing to the company net of provision for doubtful recovery amounted to approximately \$300,000.

3. ADVANCES

At September 30, 1976 the company had made advances to shareholders (\$1,066,913) and to companies which are related to directors, officers or shareholders of the company. These advances bear interest at 15% per annum, calculated on the outstanding balance each month.

CLAIBORNE INDUSTRIES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEAR ENDED SEPTEMBER 30, 1976

3. ADVANCES (Cont'd)

The outstanding advances, together with accrued interest, at January 31, 1976 amounting to \$1,565,979 were evidenced by demand promissory notes and secured as follows:

- (i) a mortgage on real property at Finch and Weston Road, Toronto, in the amount of \$250,000 (see note 11(b)).
- (ii) *an undivided 80.8% interest in 50% of a \$2,500,000 mortgage on real property in Burlington, Ontario. The mortgage held as security is involved in litigation.
- (iii) mortgages of leasehold on a marina property in the amount of \$300,000 representing first and second charges on those leaseholds.
- (iv) **a chattel mortgage on livestock (see note 11(a)).

* Under court order dated June 8, 1976, the project (Burlington Square) was placed under the control of a trustee and interim receiver and a further \$2,500,000 of encumbrance prior to that of the company was authorized to complete the project. Subsequent to September 30, 1976 further amounts of \$1,500,000 have been authorized.

** An agreement made subsequent to September 30, 1976 had the effect of establishing the amount of the security at \$594,000.

4. FIXED ASSETS

	1976			1975
	Cost	Accumulated depreciation	Net	Net
Land	\$150,796		\$150,796	\$150,796
Building	529,264	\$240,155	289,109	307,696
Equipment	99,076	91,918	7,158	9,464
Automotive	81,985	56,902	25,083	25,080
	<u>\$861,121</u>	<u>\$388,975</u>	<u>\$472,146</u>	<u>\$493,036</u>

5. OTHER ASSETS

Deferred income taxes	\$ 38,585
Debenture discount	5,506
Other, securing demand bank loan of \$8,500	<u>10,000</u>
	<u>\$ 54,091</u>

CLAIBORNE INDUSTRIES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEAR ENDED SEPTEMBER 30, 1976

6. BANK INDEBTEDNESS

	<u>1976</u>	<u>1975</u>
Cheques issued in excess of amounts on deposit	\$ 181,705	
Demand bank loans	<u>1,308,500</u>	<u>\$1,210,000</u>
	<u>\$1,490,205</u>	<u>\$1,210,000</u>

The demand loan of \$1,300,000 is secured by the general assignment of book debts, a collateral mortgage on the company's building, and a floating charge debenture in the amount of \$1,500,000.

7. LONG TERM DEBT

	<u>1976</u>	<u>1975</u>
The company		
Series A debentures, non-interest bearing maturing January 16, 1976		\$ 343,500
Series B debentures, 9½%, maturing April 1, 1977, convertible into common shares at \$2.75 per share, secured by a floating charge on all assets of the company and its subsidiaries*	\$ 685,000	795,000
Other	9,543	
Subsidiary		
10½% Mortgage, due June 1, 1980, amortized over twenty-five years	342,916	348,655
15% Mortgage, due November 1, 1978 amortized over twenty-five years	148,872	
Series A debentures, 11%, maturing January 13, 1981, secured by a first floating charge on the assets of the subsidiary**	320,000	
Other	6,550	9,673
	<u>1,512,881</u>	<u>1,496,828</u>
Included in current liabilities	<u>14,527</u>	<u>352,382</u>
	<u>\$1,498,354</u>	<u>\$1,144,446</u>

* Subsequent to September 30, 1976, by supplemental indenture, the maturity date of these debentures has been extended from April 1, 1977 to April 1, 1979 and accordingly, no portion of the debentures is included in current liabilities.

** A subsidiary issued a Series A debenture in the amount of \$225,000 in exchange for outstanding debentures of the company in the amount of \$210,000. Certain of the documentation related to the transaction reflects agreement by the subsidiary to issue \$235,000 of these debentures. Interest on the debenture has not been paid pending resolution of the discrepancy and certain other matters related to the debenture holder. While the debenture is in technical default, it has been included in long term debt on the basis that the clarification of the matter will not require the use of existing resources.

CLAIBORNE INDUSTRIES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEAR ENDED SEPTEMBER 30, 1976

7. LONG TERM DEBT (Cont'd)

Principal payments on long term debt for each of the four years subsequent to 1977 are as follows:

1978	-	\$ 15,400
1979	-	841,000
1980	-	322,000
1981	-	320,000

While it is intended that the mortgages be extended over the period of amortization the four year repayments include the amounts to be retired under the original maturity dates.

8. CAPITAL STOCK

The common shares may be converted at any time into fully paid Class A shares on the basis of one common share for each Class A share, provided that no more than 90% of the common shares issued and outstanding as fully paid shall be so converted into Class A shares.

The company has reserved 249,091 common shares for conversion of the Series B debentures to April 1, 1979.

9. INCOME TAXES

Deferred income taxes arise in respect of amounts of accrued interest receivable deducted in arriving at income for tax purposes in Rocamora Corporation Limited and in recognition of the excess of depreciation recorded over the corresponding amounts claimed for income tax purposes in that subsidiary.

At September 30, 1976 the company has losses available to reduce future years' income for tax purposes, the tax effect of which has not been recorded in the accounts, as follows:

1977	-	\$ 59,300
1978	-	87,100
1979	-	42,000
1980	-	<u>44,700</u>
		<u>\$233,100</u>

10. LEGAL PROCEEDINGS

The companies' accounts and records are in the possession of the Royal Canadian Mounted Police in connection with their investigation into the affairs of the company, its officers and directors, and of companies related to directors and officers of the company. An officer and director has been charged with fraud in connection with an amount of approximately \$1,500,000.

CLAIBORNE INDUSTRIES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEAR ENDED SEPTEMBER 30, 1976

11. SUBSEQUENT EVENTS

- (a) Subsequent to September 30, 1976 the proceeds on the sale of a portion of the livestock of \$495,000, were applied to accrued interest of \$264,415 (including interest to January 31, 1977), to unsecured advances in the amount of \$129,421 and the balance against the secured advances.
- (b) Subsequent to September 30, 1976 the company has advanced and will advance (net of certain recoveries) prior to the closing described below, approximately \$131,000 against prior obligations on the Finch and Weston Road property. An agreement for sale, expected to close June 15, 1977, will result in the assumption of an interest in a mortgage on the property, the company's share of which will approximate \$415,000.
- (c) A subsidiary has acquired an interest in a mortgage in the amount of \$100,000 secured by the assignment of the \$2,500,000 Burlington Square mortgage, in exchange for a \$100,000 Series A debenture of that subsidiary.
- (d) A subsidiary acquired for consideration of \$833 all of the outstanding shares of Braywood Corporation Limited, whose net book value at December 31, 1976 is represented as follows:

Investment in Series B debenture of Claiborne	\$ 135,000
Bank indebtedness, secured by the Series B debenture	(105,088)
Loan to a shareholder	(17,529)
Other	<u>56</u>
	<u>\$ 12,439</u>

12. ANTI-INFLATION LEGISLATION

The Government of Canada has enacted Anti-Inflation legislation which provides for the restraint of dividends from October 14, 1975.

13. OTHER STATUTORY INFORMATION

Remuneration of directors and officers was \$158,000 (1975, \$74,000).